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With globalization, there has been a liberalization of markets, privatization and a reduction in the role of governments. So why are some state-supported firms so successful in the current international environment? In this issue, we look at what shapes the success of state-supported firms in a globalized setting: a country's policies or a firm's strategies?

Governing the market in a globalizing era: Developmental states, global production networks and inter-firm dynamics in East Asia¹

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In East Asian countries like South Korea, Taiwan and Singapore, the state has played a significant role in shaping the economy and governing the market when markets were still domestic in nature. The state identifies focus areas and develops policies and financial support to help firms in these industries. Market protection, technology transfers, subsidies, incentives and export promotion are some of the ways in which the state encourages the involvement of firms in national goals for industrialization. The state may also invest directly and take up ownership of domestic firms.

The success of many state-supported firms, known generally as "national champions", may be attributed to a state's initial plans for industrialization and economic development. There is no doubt that many state-supported firms continue to rely on the state's intervention and industrialization program because of the firms' dependency on the state's industrial policy and support during the emergence of globalization. However, as a result of changes on the national level, such as internal political disorder, changes in government and markets, and the ability of these firms to acquire production capabilities for export as well as knowledge and technology, state support can no longer be the sole reason for the success of these firms in a globalized environment.

¹ Henry Wai-chung Yeung (2013): "Governing the market in a globalizing era: Developmental states, global production networks and inter-firm dynamics in East Asia." *Review of International Political Economy*. DOI: 10.1080/09692290.2012.756415

With the business environment becoming increasingly international, some leading firms have become transnational with controls and production management in at least two countries, developing a global production network. These cross-border activities have caused a shift in production and manufacturing which result in changing patterns of income and the creation of a globally dispersed value chain with greater interconnectedness in the global economy.

Opportunities arise for state-supported firms to integrate and tap into leading firms' global production networks when these leading firms reorganise their activities and seek out international partners for greater specialisation in production in order to have a competitive advantage in the globally dispersed value chain. Falling dependency on the state's policy and control together with transnational lead firms having globally dispersed value chains have caused national firms to revamp their organisation's direction to become business partners with leading firms. They have tapped into leading firms' global networks and integrated into their value chains for businesses development.

Taiwan's Hon Hai's electronics manufacturing services work with Apple Inc. is given as an example of a situation where a firm does not follow state policy and control but made its own strategic decision to partner with Apple and use Apple's global network for its own business development, becoming a USD 100 billion company.

The state has been able to lead the market and transform industries through its policy making because of its bureaucratic control and firms' reliance on the state for support. With globalization, these national firms have moved away from state-led initiatives and become less dependent on the state's intervention. Firms have developed business relationships with leading firms and become integrated with leading firms' global networks. Therefore, it can be concluded that while the success of state-supported firms had depended on the state's policy at the initial stages of globalization, now it is the firm's strategies that contribute to their success in a globalized environment.

The full paper is attached.